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DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIEFELD/AADLER/CHINCKLEY
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA PASS FAS/OCRA/RADLER/BEAN/FERUS
EEB/CIP DAS GROSS, FSAEED, MSELINGER

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BEXP, KBIO, KIPR, KWMN, IN

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
APRIL 27 TO MAY 1, 2009

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1. (U) Below is a compilation of economic highlights from Embassy
New Delhi for the week of April 27 to May 1, 2009, including the
following:

- India Signals Plans to Purchase IMF Bonds
- Slowdown in Mergers and Acquisitions
- Regulator Issues Notices to 12 Accounting Firms
- India Considering Separate Standards for Medical Devices

India Signals Plans to Purchase IMF Bonds

2. (U) At the G-20 meeting in London in April, Montek Singh
Ahluwalia, Deputy Chairman of the Planning Commission, indicated
India's willingness to boost the resources and capabilities of the
IMF through the purchase of \$10 billion of IMF bonds, using its
foreign exchange reserves. India's foreign exchange reserves stood
at \$252.5 billion on April 17, 2009. The \$10 billion contribution
is about 2 percent of the total \$500 billion committed to the IMF
globally at the April G-20 Summit. This is the same contribution as
India's share in the Fund. Ahluwalia said that "if the IMF can
issue the securities, it's an easy way for us to make a
contribution." The benefit of using foreign exchange reserves to
buy bonds comes from the fact that this process can be implemented
by the Reserve Bank of India, without any legislative approval.
Moreover, India would prefer a bond issue as it does not have the
fiscal strength to contribute \$10 billion to the IMF, which amounts
to about one percent of its GDP.

3. (U) Under Ahluwalia's proposal, the RBI would shift some of its
funds currently held by US treasury bills or other US government
bonds to the proposed IMF securities. Analysts opine that the
proposal could face political opposition since the contribution does
not directly help India, as it is not borrowing from the IMF.
However, India will not lose the money it plans to give to the IMF.
The Fund usually makes a small profit on its loans. The modalities
of the commitment to the IMF are yet to be worked out by the Reserve
Bank of India and the government ministries.

Slowdown in Mergers and Acquisitions

¶4. (U) According to Dealogic, mergers and acquisitions (M&As) involving Indian companies in calendar year 2009 to date have been the lowest (due to the global slowdown) in four years, amounting to just \$7.4 billion, a decline of 51 percent from the corresponding period a year ago. Inbound M&As totaled \$1.6 billion in 70 deals so far this year, down 77 percent from last year. The US remained the biggest investor in Indian firms with \$483 million via 21 deals. Outbound M&A activity also fell drastically - by 96 percent - to just \$334 million through 34 deals. The top two acquisitions which took place during the year were Reliance Industries' 25 percent equity buyout in Reliance Petroleum for \$1.7 billion and Quippo Telecom Infrastructure's 49 percent equity acquisition in Wireless II Infoservices for \$1.3 billion. Other major M&As which took place include Tech Mahindra's 51 percent acquisition in Satyam Computer Services for \$577 million, Reliance Industries' five percent buy in Reliance Petroleum and Life Insurance Corporation of India's two percent purchase in State Bank of India.

Regulator Issues Notices to 12 Accounting Firms

¶5. (U) The Institute of Chartered Accountants of India (ICAI - which governs the accounting profession in India) has issued notices to twelve Indian chartered accounting (CA) firms that have tie-ups with foreign firms. Indian law allows only those audit firms registered with ICAI to provide audit services. However, according to ICAI President Uttam Prakash Agarwal, some unregistered international audit firms have allegedly conducted audits by associating themselves with local firms and provided services

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indirectly. "[ICAI] wants to find out how these firms are operating and if they are sidestepping the law to do so. Therefore, notices have been sent to 12 firms having affiliations with foreign entities to understand their modus operandi," stated Agarwal.

¶6. (U) The twelve Indian CA firms must submit by May 23 all documents, agreements, contracts, terms and conditions for usage of a name, and fee-sharing arrangements with any multinational auditing firm. While ICAI declined to divulge the names of the firms on whom it has served notices, Price Waterhouse, an Indian arm of global audit firm PricewaterhouseCoopers (PwC), and SR Batliboi, a member firm of Ernst & Young, are some of the well-known Indian firms that are affiliated with foreign firms. ICAI has reportedly formed a committee to examine the Satyam accounting scandal and recommend regulatory changes, wherever required, to the government and the Securities and Exchange Board of India (SEBI).

India Considering Separate Standards for Medical Devices

¶7. (U) India's Drugs Controller General of India (DCGI) has reportedly decided to create separate quality standards for medical devices. At present, for regulatory purposes, medical devices in India are grouped with pharmaceuticals. The new guidelines are expected to be notified by the end of May and will classify medical devices based on the risks involved. Both drugs and devices are regulated by state drug regulators under the Drugs and Cosmetics Act. The new guidelines would make it mandatory for both domestic, as well as foreign, manufacturers to have their medical devices certified by bodies like the International Organization for Standardization (ISO) and Bureau of Indian Standards (BIS) before selling/exporting them in the Indian market. Some commentators believe the move is expected to not only create a level playing field for both Indian and foreign manufacturers of medical devices, but will also provide transparency in rules and regulations governing the export, manufacturing, and sale of medical devices in India.

¶8. (U) The nodal department for medical devices - Ministry of Health - has told media that DCGI has finalized the new guidelines

and submitted them to the Drug Technical Advisory Board for approval. According to industry estimates, Indian manufacturers produce medical devices worth \$2.5 billion, with about 60 percent exported to Europe, Middle East, Africa and North America. At the same time, India imports approximately \$1.5 billion in medical devices to meet domestic requirements.

19. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>.

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